

Consolidated Financial Statements and Other Financial Information

Berger Health System

Years ended December 31, 2001 and 2000 with Report of Independent Auditors



STATE OF OHIO
OFFICE OF THE AUDITOR

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Board of Governors
Berger Health System

We have reviewed the Independent Auditor's Report of the Berger Health System, Pickaway County, prepared by Ernst & Young LLP for the audit period January 1, 2001 through December 31, 2001. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Berger Health System is responsible for compliance with these laws and regulations.

A handwritten signature in black ink, appearing to read "Jim Petro".

JIM PETRO
Auditor of State

June 10, 2002

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Berger Health System

Consolidated Financial Statements and Other Financial Information

Years ended December 31, 2001 and 2000

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Report of Independent Auditors

Board of Governors
Berger Health System

We have audited the accompanying consolidated balance sheets of Berger Health System (the System), a component unit of the City of Circleville, as of December 31, 2001 and 2000, and the related consolidated statements of operations, changes in fund balances, and cash flows for the years then ended. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Governmental Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Berger Health System at December 31, 2001 and 2000, and the consolidated results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

In accordance with *Governmental Auditing Standards*, we have also issued a report dated May 1, 2002 on our consideration of Berger Health System's internal control over financial reporting and our tests of its compliance with laws certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our report.

Ernst + Young LLP

May 1, 2002

Berger Health System
Consolidated Balance Sheets

	December 31	
	2001	2000
Assets		
Current assets:		
Cash and cash equivalents <i>(Note 3)</i>	\$ 802,595	\$ 1,879,781
Investments <i>(Note 3)</i>	5,044,569	4,240,885
Patient accounts receivable, less allowance for doubtful accounts (2001—\$4,000,000; 2000—\$6,780,000)	5,547,265	7,960,272
Inventories	731,142	822,823
Prepaid expenses and other assets	1,530,907	369,553
Total current assets	13,656,478	15,273,314
Long term investments <i>(Note 3)</i>	13,841,455	4,596,459
Property and equipment, net <i>(Note 6)</i>	28,708,570	30,145,812
Goodwill	-	66,787
Other assets	54,302	261,468
Total assets	\$ 56,260,805	\$ 50,343,840

	December 31	
	2001	2000
Liabilities and fund balances		
Current liabilities:		
Accounts payable and accrued expenses	\$ 2,393,284	\$ 3,060,548
Accrued payroll and related liabilities	2,329,526	2,171,857
Estimated Medicare and Medicaid third-party settlements <i>(Note 4)</i>	393,892	187,192
Current portion of long-term debt <i>(Note 5)</i>	75,000	70,000
Total current liabilities	<u>5,191,702</u>	<u>5,489,597</u>
Long-term debt, less current portion <i>(Note 5)</i>	1,648,750	1,724,167
Fund balances:		
General	49,188,738	42,713,637
Restricted	231,615	416,439
	<u>49,420,353</u>	<u>43,130,076</u>
Total funds	<u>\$ 56,260,805</u>	<u>\$ 50,343,840</u>

See accompanying notes.

Berger Health System
Consolidated Statements of Operations

	Year ended December 31	
	2001	2000
Revenue:		
Net patient service revenue (<i>Note 2</i>)	\$ 46,324,255	\$ 41,763,508
Premium revenue	73,385	564,022
Other revenue	907,029	860,548
Total revenue	47,304,669	43,188,078
Expenses:		
Wages and salaries	14,419,002	14,386,360
Benefits	3,611,029	2,758,116
Supplies and other	11,252,672	10,699,868
Purchased services	3,282,793	3,712,522
Provision for bad debts	4,401,096	7,781,362
Professional fees	1,402,962	1,154,075
Insurance	428,241	384,739
Depreciation and amortization	3,148,391	2,770,155
Interest expense	101,721	84,954
Total expenses	42,047,907	43,732,151
Gain (loss) from operations	5,256,762	(544,073)
Nonoperating gains (losses):		
Investment income (<i>Note 3</i>)	928,146	656,198
Gain on sale of assets	151,912	-
Donations and other	138,281	(33,745)
	1,218,339	622,453
Excess of revenues and gains over expenses	\$ 6,475,101	\$ 78,380

See accompanying notes.

Berger Health System

Consolidated Statements of Changes in Fund Balances

	Year ended December 31			
	2001		2000	
	General	Donor Restricted	General	Donor Restricted
Fund balance at beginning of year	\$ 42,713,637	\$ 416,439	\$ 42,635,257	\$ 253,266
Excess of revenues and gains over expense	6,475,101	-	78,380	-
Investment income	-	-	-	1,897
Gifts, grants, and bequests	-	10,066	-	255,386
Assets released from restriction for operations	-	(194,890)	-	(94,110)
Fund balance at end of year	<u>\$ 49,188,738</u>	<u>\$ 231,615</u>	<u>\$ 42,713,637</u>	<u>\$ 416,439</u>

See accompanying notes.

Berger Health System

Consolidated Statements of Cash Flows - Restricted and Unrestricted Funds

	Year ended December 31	
	2001	2000
Operating activities		
Excess of revenues and gains over expenses	\$ 6,475,101	\$ 78,380
Adjustments to reconcile excess of revenues and gains over expenses to net cash provided by operating activities:		
Depreciation and amortization	3,148,391	2,770,155
Net change in unrealized gains on investments	(130,290)	(79,262)
Cash provided by (used for) certain operating assets and liabilities:		
Patient accounts receivable, net	2,413,007	(1,464,367)
Inventories	91,681	(70,599)
Prepaid expenses and other assets	(1,161,354)	(134,008)
Accounts payable and accrued expenses	(667,264)	524,905
Accrued payroll and related liabilities	157,669	552,041
Accrued CHO operating losses	-	(546,591)
Accrued CHO contract losses	-	(550,000)
Estimated Medicare and Medicaid third-party settlements	206,700	682,912
Other assets	273,535	(120,173)
Net cash provided by operating activities	10,807,176	1,643,393
Investing activities		
Increase in current investments	(803,684)	(578,729)
(Increase) decrease in long term investments	(9,114,706)	765,829
Capital contributions from CHO	-	67,218
Net cash (used in) provided by investing activities	(9,918,390)	254,318
Capital and related financing activities		
Repayment of long-term debt	(70,000)	(70,000)
Acquisition of property and equipment, net	(1,711,149)	(3,047,094)
Net cash used in capital and related financing activities	(1,781,149)	(3,117,094)
Noncapital and related financing activities		
Donor restricted investment income	-	1,897
Donor restricted gifts, grants, and bequests	10,067	255,386
Assets released from restriction for operations	(194,890)	(94,110)
Net cash (used in) provided by noncapital financing activities	(184,823)	163,173
Net decrease in cash and cash equivalents	(1,077,186)	(1,056,210)
Cash and cash equivalents at beginning of year	1,879,781	2,935,991
Cash and cash equivalents at end of year	\$ 802,595	\$ 1,879,781

See accompanying notes.

Berger Health System

Notes to Consolidated Financial Statements

December 31, 2001

1. Summary of Significant Accounting Policies

Organization

Berger Health System (the System) is operated by a Board of Governors pursuant to an agreement between the City of Circleville, Ohio and Pickaway County. The City of Circleville is the holder of legal title to the System. Members of the Board of Governors are appointed by the Board of County Commissioners and the Mayor of the City (four each) with the consent of City Council. The Mayor of the City of Circleville, by virtue of his position, is the President of the Board of Governors. As a result of this reporting relationship and pursuant to Governmental Accounting Standards Board Statement No. 14, *The Financial Reporting Entity*, the System is a component unit of the City of Circleville.

The System is comprised of two distinct entities, Berger Hospital (the Hospital) and Pickaway Health Services (PHS). PHS provides health care and physician services in the geographic area served by the Hospital. PHS, which operates exclusively for the benefit and support of the Hospital, is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC) and also qualifies as a public charity under Section 509 of the IRC.

The accounting policies that affect significant elements of the System's financial statements are summarized below.

Basis of Presentation

The accompanying consolidated financial statements include all the accounts of the Hospital and PHS. All significant intercompany transactions and balances have been eliminated in consolidation. The statements are prepared based on proprietary accounting. Pursuant to Governmental Accounting Standards Board (GASB) Statement No. 29, *The Use of Not-For-Profit Accounting and Financial Reporting Principles by Governmental Entities*, the System has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989 that are developed for business enterprises. The System does not apply Statement of Financial Accounting Standards and Interpretations whose provisions are limited to not-for-profit organizations or address issues concerning primarily such organizations.

Berger Health System

Notes to Consolidated Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenue and expenses during the reporting period. Actual results may differ from these estimates.

Patient Accounts Receivable and Revenue

Patient accounts receivable and revenue are recorded when patient services are performed. The System is a provider of services under the Medicare and Medicaid programs. A significant portion of the reimbursement for Medicare and Medicaid inpatient services (and effective August 1, 2000, outpatient Medicare services) is based on a price-per-case determined by the patient's clinical classification (diagnosis related group) and only certain expenses are reimbursed at adjusted costs. During the year, the System receives payment for Medicare and Medicaid services on an estimated basis, and patient accounts receivable reflect deductions to adjust standard charges to such estimates. After completion of each fiscal year, the foregoing estimates are adjusted based on reports filed with the programs and the amounts which are owed to or by the System are reflected in the financial statements. Any difference between the System's standard rates for service performed and management's estimates of various programs' reimbursements are either charged or credited to net patient service revenue accounts as contractual adjustments.

Net Patient Service Revenue

The System has agreements with third-party payors that provide for payments to the System at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, diagnosis related groups, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including adjustments made to estimated third-party settlements on prior year cost reports. Estimated third-party settlements are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Berger Health System

Notes to Consolidated Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

Premium Revenue

The System has agreements with various Health Maintenance Organizations (HMOs) to provide medical services to subscribing participants. Under these agreements, the System receives monthly capitation payments based on the number of each HMO's participants, regardless of services actually performed by the System. In addition, the HMO's make fee-for-service payments to the System for certain covered services based upon discounted fee schedules.

Charity Care

The System accepts all patients regardless of their ability to pay. A patient is classified as a charity patient by reference to certain established policies of the System. In assessing a patient's inability to pay, the System utilizes generally recognized poverty income levels, but also includes cases where incurred charges are significant when compared to the patients' financial resources. Because the System does not expect to receive payment of amounts determined to qualify as charity care, they are not reported as net patient service revenue.

Hospital Care Assurance Program

The Hospital Care Assurance Program (HCAP) provides financial assistance to the System for care provided to the indigent. Under HCAP, the System is assessed amounts which are matched with federal funds and subsequently redistributed to the System. In fiscal 2001 and 2000, the System received and recognized approximately \$20,000 and \$49,000 respectively, in net HCAP distributions.

Operating and Nonoperating Activities

The System's primary purpose is to provide diversified health care services to the community. As such, activities related to the ongoing operations of the System are classified as revenue. Revenue includes those generated from direct patient care, related support services and sundry revenues related to the operation of the System. Gains and losses not directly related to the ongoing operations of the System are reported as nonoperating. Gains and losses related to investment income, sale of property and equipment and unrestricted contributions are classified as nonoperating.

Berger Health System

Notes to Consolidated Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

Cash and Cash Equivalents

The System defines cash as currency on hand and demand deposits with financial institutions. Cash equivalents are defined as short-term, highly liquid investments with original purchase maturities of three months or less.

Investments

Investments are recorded at market value based on quoted market prices. Investments in certificates of deposit and money market accounts are classified as current.

Investments include certificates of deposit, money market accounts and government securities and are recorded at fair value based on quoted market prices.

Interest, dividends, and gains and losses, both realized and unrealized on investments in debt securities are included in nonoperating gains when earned.

Inventories

Inventories are determined by physical count and are priced at the lower of cost or market. Cost is determined on the first-in, first-out method.

Property and Equipment

Property and equipment are stated at cost or fair value at date received, if acquired by gift. The carrying value of assets sold, retired, or otherwise disposed of and the related allowances for depreciation are eliminated from the accounts.

Depreciation of property and equipment is provided by annual charges to expense on the straight-line method over the expected useful lives of the assets. The ranges of useful lives used in computing depreciation are 5 to 25 years for land improvements and equipment and 10 to 40 years for buildings.

Berger Health System

Notes to Consolidated Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

Goodwill

The System has recorded goodwill arising from business acquisitions. Amortization of goodwill is provided by annual charges to expense on a straight-line basis over 5 years.

Litigation

Because of the nature of its operations, the System is at all times subject to pending and threatened legal actions which arise in the normal course of its activities.

Malpractice and general patient liability claims have been asserted against the System by various claimants. The claims are in various stages and some may ultimately be brought to trial. At December 31, 2001, management believes asserted and unasserted claims and assessments will not exceed the limits of the insurance coverage. Accordingly, no amounts have been accrued for malpractice and general patient liability claims at December 31, 2001.

There may be other claims asserted arising from services provided to patients, however, because the annual insurance policy of the Hospital only covers claims that have been asserted and incidents reported to the insurance carrier, these unknown incidents are not yet covered by insurance. Management has no basis to estimate the ultimate cost, if any, of the settlement of such potential claims and, accordingly, has not accrued for them. Management intends to maintain the current claims-made insurance coverage for the Hospital to cover any unknown incidents that may be asserted.

Functional Expenses

The System provides general health care services to residents within its geographic region. General and administrative expenses are approximately \$6,810,000 and \$6,775,000 of total expenses in 2001 and 2000, respectively.

Berger Health System

Notes to Consolidated Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

Donor Restricted Funds

Donor restricted funds are segregated from general funds that are under the System's discretionary control. Restricted gifts and other restricted resources are recorded as direct additions to the appropriate restricted fund. Resources restricted by donors for plant replacement and expansion are added to the general fund balance to the extent expended within the period. Resources restricted by donors or grantors for operations are reported in other revenue to the extent used within the period. Unrestricted gifts and bequests are included in nonoperating gains in the statement of operations.

Reclassifications

Certain reclassifications have been made to the 2000 financial statements to conform with the 2001 presentation.

2. Net Patient Service Revenue

Net patient service revenues are comprised for the following:

	Year ended December 31	
	2001	2000
Patient charges at established rates	\$ 71,917,922	\$ 65,040,214
Contractual adjustments	(25,336,483)	(23,068,331)
Hospital Care Assurance Program	20,401	49,350
Charity care	(277,585)	(257,725)
Net patient service revenue	<u>\$ 46,324,255</u>	<u>\$ 41,763,508</u>

Berger Health System

Notes to Consolidated Financial Statements (continued)

3. Deposits and Investments

The classification of cash and cash equivalents, and investments in the financial statements for both the general fund and restricted fund is shown below in comparison to market values for such investments:

	December 31, 2001		December 31, 2000	
	Cost	Market	Cost	Market
Cash and cash equivalents:	\$ 802,595	\$ 802,595	\$1,879,781	\$1,879,781
Investments:				
Certificates of deposit	\$ 2,000,000	\$ 2,000,000	\$2,000,000	\$2,000,000
Money market accounts	3,044,569	3,044,569	2,240,885	2,240,885
	\$ 5,044,569	\$ 5,044,569	\$4,240,885	\$4,240,885
Long Term Investments:				
Government securities	\$13,670,455	\$13,841,455	\$4,555,749	\$4,596,459
	\$13,670,455	\$13,841,455	\$4,555,749	\$4,596,459

The composition of investment income for the year ended December 31, is as follows:

	2001	2000
Change in unrealized gains	\$130,290	\$ 79,262
Interest and dividend income	797,856	576,936
	\$928,146	\$656,198

Berger Health System

Notes to Consolidated Financial Statements (continued)

3. Deposits and Investments (continued)

Deposits

At December 31, 2001, the carrying amount of the System's bank deposits for all funds is \$2,836,000 as compared to bank balance of \$3,775,000. The differences in carrying amounts and bank balances are caused by outstanding checks and deposits in transit. Of the bank balances, \$501,000 is covered by federal insurance programs and \$ 3,274,000 is collateralized with securities held by the financial institution or by its trust department or agent in the System's name.

Investments

The System's investments are classified as available for sale and are recorded at fair market value. They are categorized to give an indication of the level of risk assumed by the entity. Risk Category 1 includes those investments that meet any one of the following criteria: a) Insured; b) Registered; or c) Held by the System or its agent in the System's name. Risk Categories 2 and 3 include investments, which are neither insured nor registered. Category 2 includes investments held by the counterparty's trust department (or agent) in the System's name. Category 3 includes investments held by a) the counterparty, or b) the counterparty's trust department (or agent) but not in the System's name. As of December 31, 2001, all investments were Category 1 investments.

4. Medicare and Medicaid Programs and Third-Party Settlements

In the healthcare industry, laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. The System believes that it is in substantial compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. Compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

Berger Health System

Notes to Consolidated Financial Statements (continued)

4. Medicare and Medicaid Programs and Third-Party Settlements (continued)

The reimbursement for Medicare and Medicaid patients is subject to audit and final determination by the respective agencies. At December 31, 2001, final determinations have not been made for 2000 and 2001 for Medicare and 1996 through 2001 for Medicaid. The amounts reported on the financial statements represent estimated settlements outstanding at December 31, 2001 and 2000 which System management believes will approximate final settlements. The System recognized an increase (decrease) in net patient service revenue of \$128,000 and (\$365,000) in 2001 and 2000, respectively, on prior year estimated settlements.

Medicare and Medicaid represented 54% of charges at established rates for the year ended December 31, 2001 and represented 46% of charges at established rates for the year ended December 31, 2000.

5. Long-Term Debt

Long-term debt consists of:

	December 31	
	2001	2000
\$2,000,000 loan agreement to the City of Circleville, Ohio, variable interest adjusted annually to a Pre-determined interest rate ranging from 5.036% to 5.400% (5.181% at December 31, 2001), retired by monthly principal and interest payments ranging from \$13,430 to \$13,838 starting December 1997 through December 2017	\$1,723,750	\$1,794,167
Less current portion	(75,000)	(70,000)
Long-term portion	<u>\$1,648,750</u>	<u>\$1,724,167</u>

Berger Health System

Notes to Consolidated Financial Statements (continued)

5. Long-Term Debt (continued)

Scheduled principal payments of long-term debt are as follows:

2002	\$ 75,000
2003	75,000
2004	80,000
2005	85,000
2006	90,000
Thereafter	<u>1,318,750</u>
Total	<u><u>\$1,723,750</u></u>

6. Property and Equipment

Property and equipment consist of the following:

	December 31	
	2001	2000
Land and land improvements	\$ 1,194,384	\$ 1,117,692
Buildings and fixed equipment	32,458,245	32,341,885
Major moveable equipment	20,203,656	18,751,027
Construction-in-progress	189,533	214,525
Total	54,045,818	52,425,129
Less allowance for depreciation	(25,337,248)	(22,279,317)
Property and equipment, net	<u>\$ 28,708,570</u>	<u>\$ 30,145,812</u>

Berger Health System

Notes to Consolidated Financial Statements (continued)

7. Employee Benefit Plans

Pension Plan

All Berger Hospital employees are required to participate in the Public Employees Retirement System of Ohio (PERS), a cost sharing multiple employer defined benefit pension plan. PERS provide retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. The payroll for employees covered by PERS for the year ended December 31, 2001 was approximately \$11,900,000.

The authority to establish and amend benefits is provided by state statute per Chapter 145 of the Ohio Revised Code (the ORC). PERS issues a stand-alone financial report, which can be obtained through written requests addressed to 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 466-2085.

The ORC provides statutory authority for employee and employer contributions. The employee contribution rates are 8.5 percent of eligible salary. The employer contribution rate for local government employer units was 13.55, 10.84, and 13.55 percent of covered payroll in 2001, 2000, and 1999, respectively (\$1,600,000, \$1,150,000, and \$1,271,000 contributed in 2001, 2000, and 1999, respectively).

Postretirement Benefits

PERS also provides postretirement health care coverage to age and service retirees with 10 or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is available. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. A portion of the employer's contribution to PERS is set aside for the funding of postretirement health care. The ORC provides statutory authority for employer contributions. The 2001 employer contribution rate for local government employer units was 13.55 percent of covered payroll; 4.30 percent was the portion that was used to fund health care for the year 2001. The ORC provides the statutory authority requiring public employers to fund postretirement health care through their contributions to PERS. The System's 2001 contribution to the OPEB plan was \$508,000.

Berger Health System

Notes to Consolidated Financial Statements (continued)

7. Employee Benefit Plans (continued)

Postretirement Benefits (continued)

OPEB are financed through employer contributions and investment earnings there on. The contributions allocated to retiree health care, along with investment income on allocated assets and periodic adjustments in health care provisions are expected to be sufficient to sustain the program indefinitely.

As of December 31, 2001, the unaudited estimated net assets available for future OPEB payments were \$11,735,900,000. The number of benefit recipients eligible for OPEB at December 31, 2001 was 411,076.

8. Tax Deferred Annuity Program

Employees of PHS may elect to participate in a tax deferred annuity program, which was established in accordance with the requirements of Section 403(b) of the Internal Revenue Code.

This plan permits eligible employees to make voluntary contributions on a pretax basis. This plan allows plan participants to invest their savings in various investments. The employer contribution expense incurred by PHS during 2001 and 2000 was approximately \$128,000 and \$125,000, respectively.

9. Subsequent Event

In April 2002, the Hospital issued \$6,000,000 of bonds, secured by the Hospital's revenue, through the City of Circleville at a fixed interest rate of 4.18%, payable over five years through June 2007. The bond proceeds will be used to finance capital projects and improvements.



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Report of Independent Auditors on Other Financial Information

Board of Governors
Berger Health System

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The accompanying financial information is presented for purposes of additional analysis and is not a required part of the financial statements. Such information, except for information on page 24 marked “unaudited”, on which we express no opinion, has been subjected to the auditing procedures applied in our audits of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Ernst & Young LLP

May 1, 2002

Berger Health System

Details of Consolidated Balance Sheet

December 31, 2001

	Berger Hospital	Pickaway Health Services	Consolidating and Eliminating Entries	Total Consolidated Balance
Assets				
Current assets:				
Cash and cash equivalents	\$ 774,020	\$ 28,575	\$ -	\$ 802,595
Investments	5,044,569	-	-	5,044,569
Accounts receivable—net	5,166,759	380,506	-	5,547,265
Inventories	731,142	-	-	731,142
Prepaid expenses and other assets	1,506,684	24,223	-	1,530,907
Total current assets	13,223,174	433,304	-	13,656,478
Due from Pickaway Health Services	10,440,486	-	(10,440,486)	-
Long term Investments	13,841,455	-	-	13,841,455
Property and equipment, net	28,612,102	96,468	-	28,708,570
Other assets	54,302	-	-	54,302
Total assets	\$ 66,171,519	\$ 529,772	\$ (10,440,486)	\$ 56,260,805

Berger Health System

Details of Consolidated Balance Sheet (continued)

	Berger Hospital	Pickaway Health Services	Consolidating and Eliminating Entries	Total Consolidated Balance
Liabilities and fund balances				
Current liabilities:				
Accounts payable and accrued expenses	\$ 2,372,703	\$ 20,581	\$ -	\$ 2,393,284
Accrued payroll and related liabilities	2,032,180	297,346	-	2,329,526
Estimated Medicare and Medicaid third-party settlements—net	393,892	-	-	393,892
Current portion of long-term debt	75,000	-	-	75,000
Total current liabilities	4,873,775	317,927	-	5,191,702
Due to Berger Hospital	-	10,440,486	(10,440,486)	-
Long-term debt, less current portion	1,648,750	-	-	1,648,750
Fund balances (deficit):				
General	59,417,379	(10,228,641)	-	49,188,738
Restricted	231,615	-	-	231,615
	59,648,994	(10,228,641)	-	49,420,353
Total funds	\$ 66,171,519	\$ 529,772	\$ (10,440,486)	\$ 56,260,805

Berger Health System

Details of Consolidated Statement of Operations

Year ended December 31, 2001

	Berger Hospital	Pickaway Health Services	Consolidating and Eliminating Entries	Total Consolidated Balance
Revenue:				
Net patient service revenue	\$ 43,384,328	\$ 2,939,927	\$ -	\$ 46,324,255
Premium revenue	-	73,385	-	73,385
Other revenue	1,122,472	159,308	(374,751)	907,029
Total revenue	44,506,800	3,172,620	(374,751)	47,304,669
Expenses:				
Wages and salaries	11,889,367	2,529,635	-	14,419,002
Benefits	3,178,315	432,714	-	3,611,029
Supplies and other	10,841,903	600,601	(189,832)	11,252,672
Purchased services	2,755,837	553,074	(26,118)	3,282,793
Provision for bad debts	4,022,318	378,778	-	4,401,096
Professional fees	1,546,756	15,007	(158,801)	1,402,962
Insurance	307,313	120,928	-	428,241
Depreciation and amortization	3,119,803	28,588	-	3,148,391
Interest expense	101,721	-	-	101,721
Total expenses	37,763,333	4,659,325	(374,751)	42,047,907
Gain (loss) from operations	6,743,467	(1,486,705)	-	5,256,762
Nonoperating gains (losses):				
Investment Income	924,698	3,448	-	928,146
Gain on sale of assets	-	151,912	-	151,912
Donations	138,281	-	-	138,281
	1,062,979	155,360	-	1,218,339
Excess of revenue (expenses)	\$ 7,806,446	\$ (1,331,345)	\$ -	\$ 6,475,101

Berger Health System

Details of Consolidated Statement of Changes in Fund Balances

Year ended December 31, 2001

	Berger Hospital	Pickaway Health Services		Total Consolidated Balance
General funds:				
Fund balance—beginning of year	\$ 51,610,933	\$ (8,897,296)	\$	42,713,637
Excess of revenue (expenses)	7,806,446	(1,331,345)		6,475,101
Fund balance—end of year	\$ 59,417,379	\$ (10,228,641)	\$	49,188,738
Restricted funds:				
Fund balance—beginning of year	\$ 416,439	\$ -	\$	416,439
Gifts and bequests	10,066	-		10,066
Assets released from restriction for operations	(194,890)	-		(194,890)
Fund balance—end of year	\$ 231,615	\$ -	\$	231,615

Berger Health System
Schedule of Financial and Statistical
Highlights—Hospital Only (Unaudited)
5 Year Summary—1997 through 2001

	December 31				
	2001	2000	1999	1998	1997
Net days of revenue in net accounts receivable	42.5	71.3	66.4	79.9	56.9
Patient days:					
Medical and surgical	6,768	5,948	5,656	6,049	6,827
Special care	1,942	1,918	1,474	1,180	1,146
Rehabilitation	2,638	2,217	1,746	1,950	2,072
Maternity	862	672	524	89	-
Total patient days	12,210	10,755	9,400	9,268	10,045
Departmental data:					
Operations (cases)	2,796	3,053	3,211	3,235	3,099
Radiology procedures	34,108	33,987	29,934	30,058	29,763
Laboratory procedures	371,372	328,642	315,654	325,484	358,708
Emergency room visits	27,122	27,736	25,449	23,131	21,913
Cardiopulmonary procedures	71,498	59,566	55,653	50,767	42,488



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Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of the Financial Statements in Accordance With *Government Auditing Standards*

Board of Governors
Berger Health System

We have audited the financial statements of Berger Health System (the System), a component unit of the City of Circleville, as of and for the year ended December 31, 2001, and have issued our report thereon dated May 1, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the System's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of Ohio laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the System's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Board of Governors, Finance Committee, management and State Auditor of Ohio and is not intended to be and should not be used by anyone other than these specified parties.

Ernst & Young LLP

May 1, 2002

Berger Health System

Schedule of Findings

Year Ended December 31, 2001

Part I—Summary of Auditor’s Results

Financial Statement Section

Type of auditor’s report issued: Unqualified Opinion

Internal control over financial reporting:

Material weakness(es) identified? yes X no

Reportable condition(s) identified not considered to be material weaknesses? yes X no

Noncompliance material to financial statements noted? yes X no

Federal Awards Section

Not applicable.

Berger Health System

Schedule of Findings—Continued

Part II—Schedule of Financial Statement Findings

This section identifies the reportable conditions, material weaknesses, and instances of noncompliance related to the financial statements that are required to be reported in accordance with Chapter 5.18 of *Government Auditing Standards*.

None.



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BERGER HEALTH SYSTEM

PICKAWAY COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JUNE 25, 2002**